

Date: June 22, 2018

2017 – 18 EBD #4.23
2017 – 18 BARC #29.1

To: Mary Ghikas
Mark Leon
Department Heads

CC: Unit Heads

From: Keith D. Brown

Re: FY 2017 Indirect Cost Study Summary

The following is a summary of the results from FY 2017 Indirect Cost Study. The information generated from the study will be used to determine the ALA composite/overhead/indirect cost rate as defined in the ALA Operating Agreement. The resulting rate from this study will be applied to the FY 2020 budget. A description of the basic assumptions and methodology are noted below in Section I. The significant cost variances are explained in Sections II and III.

For the fiscal year ended 8-31-17, the mandated Operating Agreement derived composite (indirect) rate as calculated by the annual indirect cost study is 26.7%. This represents an increase of 0.2 in absolute numerical terms and 0.8% in percentage terms as illustrated below. See exhibits I & II for the formula details and yearly comparisons.

	<u>8/31/17¹</u>	<u>8/31/16²</u>	<u>8/31/15³</u>
Composite/Indirect Rate	26.7%	26.5%	26.4%
Numerical Change	0.2	0.1	1.2
% Change	0.8%	0.4%	0.0%
Budget Year Applied	FY20	FY19	FY18

The ALA Operating Agreement stipulates that certain ALA revenues from the divisions and publishing will be assessed at a specific percentage of the stated composite rate. As such, division conference revenue and publishing revenue will be assessed the composite/indirect rate at 100% and 50% respectively. This translates into a rate of 26.7% on division conference revenue and 13.4% on publishing related revenue.

¹ The ALA Executive Director and Division Directors are negotiating a rate of 26.5% for FY20

² Negotiated rate. By eliminating non-operating post-retirement costs reduced the study's rate from 27.5% to 26.5%.

³ Negotiated two-year rate of 26.4%.

I. Methodology and Changes in FY 2017

Every year the allocation methods used for each cost center are reviewed for appropriateness and relevance. The allocation methods used in the FY 2017 study were consistent with the previous year. It should be noted that the allocation method for allocating ITTS costs (# of PC's) is one step closer to being changed to a project/request based method. There are a number of major projects that the department undertakes each fiscal year that require significant amounts of time and resources. Along with those projects the department utilizes a Help-Desk Track-It request system for other ITTS services as needed throughout the building. While the major projects can be identified and assigned to specific areas, the Track-It Help Desk system still needs additional review in order to make sure that it meets the fairness question and does not put an undue burden on any one particular area, which is the current concern.

II. Basic Direct Costs

The direct costs illustrated in exhibit II are for the individual cost centers, which are schedules that act as the foundation or first step for the indirect cost study illustrate any significant changes. For FY 2017 direct costs in the study increased by \$103,742 (0.7%) to \$15.2 million. It should be noted that basic direct expenses now account for 28.3% of total ALA expenses of \$53.8 million, which is the same as last year.

Although there were a number of positive and negatives changes, the most significant changes were in Membership Services (\$396,659), ITTS (\$313,234), Human Resources (\$130,369), Post-Retirement costs (\$116,824) and Fiscal Services (\$103,021). These increases were offset by a reduction expenses for Advocacy Member Relations (-\$411,099) and General Business Expense (\$278,504).

III. Significant Direct/Indirect Cost Variances by Cost Type and Group Summary

The following represents the allocation of costs of specific cost types (centers) that generate either direct costs only i.e. audit fees, operating supplies etc. or a combination of direct and indirect costs i.e. Human Resources, ITTS etc. As a result, total ALA Direct/Indirect costs for FY17 increased by \$714,537 (3.8%) to \$19.7 million. This compares to a decline in total ALA expenses of \$53,806 (-0.1%) to \$53.8 million.

The following represents the changes in the various cost types:

<u>Cost Type</u>	<u>2017</u>	<u>% Total</u>	<u>2016</u>	<u>% Total</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Supplies	\$ 10,256	0.1%	\$ 8,468	0.0%	\$ 1,788	21.1%
Telephone	\$ 42,969	0.2%	\$ 33,924	0.2%	\$ 9,045	26.7%
Equip/Main	\$ 1,529	0.0%	\$ 1,806	0.0%	\$ (277)	-15.3%
Human Resources	\$ 933,719	4.7%	\$ 806,814	4.2%	\$ 126,905	15.7%
Building Ops	\$ 1,424,704	7.2%	\$ 1,485,704	7.8%	\$ (60,999)	-4.1%
Reprographics	\$ (53,209)	-0.3%	\$ 9,429	0.0%	\$ (62,638)	-664.3%
Distribution Center	\$ 149,698	0.8%	\$ 190,518	1.0%	\$ (40,819)	-21.4%
ITTS	\$ 3,032,625	15.4%	\$ 2,724,498	14.3%	\$ 308,127	11.3%
HQ Library/ORS	\$ 766,933	3.9%	\$ 744,559	3.9%	\$ 22,373	3.0%
Fiscal Services	\$ 1,924,723	9.8%	\$ 1,810,379	9.5%	\$ 114,344	6.3%

Audit Fees	\$ 81,439	0.4%	\$ 95,211	0.5%	\$ (13,772)	-14.5%
Publishing AED	\$ 111,278	0.6%	\$ 153,310	0.8%	\$ (42,032)	-27.4%
Production Serv	\$ 11,655	0.1%	\$ 17,194	0.1%	\$ (5,538)	-32.2%
PAO	\$ 580,509	2.9%	\$ 594,706	3.1%	\$ (14,197)	-2.4%
Membership Serv	\$ 2,806,673	14.2%	\$ 2,030,264	10.7%	\$ 776,409	38.2%
General Administration	\$ 7,885,378	40.0%	\$ 8,289,560	43.6%	\$ (404,182)	-4.9%
Total	<u>\$ 19,710,880</u>	<u>100.0%</u>	<u>\$ 18,996,343</u>	<u>100.0%</u>	<u>\$ 714,537</u>	<u>3.8%</u>

The following is a more detailed explanation of the most significant year to year changes by group summary:

- A. **Membership Services** – Direct/Indirect costs increased by \$776,409 (38.2%) to \$2.8 million primarily as a result of higher direct costs related to a shift in personnel i.e. payroll and related expenses (\$248,425) from Advocacy Member Relations. Additional direct costs related to outside publishing services (\$69,032) also contributed. Related indirect costs increased marginally by \$13,168 (6.4%) to \$216,206.
- B. **ITTS** – Direct/Indirect costs related to ITTS expenses increased by \$308,127 (11.3%) to \$3.0 million. Most of the increase was a result of higher direct costs of \$313,235 related to payroll and related (\$165,088) as personnel was added in addition to higher outside services for equipment repairs and the use of professional services.
- C. **Human Resources** – Direct/Indirect costs increased during the year by \$126,905 (15.7%) to \$933,719 as a result of higher direct costs in staff recruitment area, primarily related to the Executive Director search (\$88,374).
- D. **Fiscal Services** – Direct/Indirect costs increased during the year by \$114,344 (6.3%) to \$1.9 million as a result of higher direct costs in payroll and related (\$135,441) as the accounting department was fully staffed for most of the year. Note that expenses related to temporary employees used in the accounting department was reduced by \$70,672 as positions were filled. Additionally, the CFO used more professional services (\$39,762) for various efficiency projects, as well as, using temporary employees (\$19,784).
- E. **General Administration** – Direct/Indirect costs declined by \$404,182 (-4.9%) as a result of a lower allocation of direct costs related to the non-operating portion of the Post-retirement obligation.

The following represents another look at the costs types from the perspective of the groups or areas generating the cost:

<u>Group Summary</u>	<u>2017</u>	<u>%</u> <u>Total</u>	<u>2016</u>	<u>%</u> <u>Total</u>	<u>\$ Change</u>	<u>%</u> <u>Change</u>
Support Units	\$ 3,525,790	17.9%	\$ 3,422,856	18.0%	\$ 102,935	3.0%
Offices & Committ	\$ 3,517,285	17.8%	\$ 3,099,032	16.3%	\$ 418,253	13.5%
Conferences	\$ 1,876,925	9.5%	\$ 1,914,120	10.1%	\$ (37,194)	-1.9%
Products & Prom	\$ 188,013	1.0%	\$ 209,108	1.1%	\$ (21,095)	-10.1%
Publishing	\$ 3,381,389	17.2%	\$ 3,410,784	18.0%	\$ (29,395)	-0.9%
Divisions	\$ 5,904,414	30.0%	\$ 5,618,822	29.6%	\$ 285,592	5.1%
Roundtables	\$ 193,552	1.0%	\$ 118,323	0.6%	\$ 75,229	63.6%
Restricted Funds	\$ 999,007	5.1%	\$ 1,076,088	5.7%	\$ (77,081)	-7.2%
Related Interest Grp	\$ 124,505	0.6%	\$ 127,211	0.7%	\$ (2,706)	-2.1%
Total	<u>\$ 19,710,880</u>	<u>100.0%</u>	<u>\$ 18,996,343</u>	<u>100.0%</u>	<u>\$ 714,537</u>	<u>3.8%</u>

Below are comments related to the most significant changes in the direct/indirect costs based on reconfiguring the above cost types into group summaries. The major group summary variances were:

- A. **Offices and Committees** – Direct/Indirect costs increased during the year by \$418,253 (13.5%) to \$3.5 million primarily as a result a slightly higher allocation of higher direct expenses for Membership Services.
- B. **Divisions** – Direct/Indirect costs increased by \$285,592 (5.1%) to \$5.9 million. The most significant changes were the result of a higher allocation of direct costs from Membership Services.
- C. **Support Units**– Direct/Indirect costs increased during the year by \$102,935 (3.0%) to \$3.5 million due to a higher allocation of the increase of direct costs in ITTS.

IV. OTHER CONSIDERATIONS

In an effort to fairly allocate direct and indirect costs in the annual study, staff continually reviews and updates the Indirect Cost study model and the methodology used to take into account changes in the revenue sources/types, the cost environment and particularly better allocation methods as they become available. A number of expense areas continue to be examined in order to determine if any changes need to be made so that the most efficient and fair allocation method is used. The area under the most critical review at this time to develop a more equitable allocation method is ITTS.

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COMPOSITE RATE

Exhibit I

Fiscal Year 2017

Publishing Department						Overall Composite Rate	Proposed Negotiated Rate ↓ 26.5%
	Conferences	Graphics	Publishing	American Libraries			
Indirect Cost	= \$ 1,874,999	+ \$ 187,810	+ \$ 3,015,555	+ \$ 384,584	= \$ 5,462,948	= 26.7%	
Revenue	\$ 9,404,288	\$ 697,649	\$ 9,393,805	\$ 934,513	\$ 20,430,255		
Unit Rate	19.9%	26.9%	32.1%	41.2%	26.7%		
Revenue per \$ Indirect Cost	\$ 5.02	\$ 3.71	\$ 3.12	\$ 2.43	\$ 3.74		

Fiscal Year 2016

						Overall Composite Rate	Negotiated Rate ↓ 26.5%
	Conferences	Graphics	Publishing	American Libraries			
Indirect Cost	= \$ 1,914,120	+ \$ 209,108	+ \$ 3,023,071	+ \$ 377,894	= \$ 5,524,193	= 27.5%	
Revenue	\$ 8,349,976	\$ 883,686	\$ 9,954,654	\$ 867,499	\$ 20,055,815		
Unit Rate	22.8%	23.6%	30.4%	43.6%	27.5%		
Revenue per \$ Indirect Cost	\$ 4.38	\$ 4.24	\$ 3.29	\$ 2.30	\$ 3.64		

BASIC DIRECT COSTS

Exhibit II

<u>EXPENSES AREAS</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>FY 17 - 16</u> <u>\$ Change</u>	<u>FY 17 - 16</u> <u>% Change</u>
A. Distribution Center (Net)	\$ 70,788	\$ 114,032	\$ 125,750	\$ (43,244)	-37.9%
B. Building Operations	\$ 1,399,310	\$ 1,461,402	\$ 1,454,885	\$ (62,092)	-4.2%
C. Human Resources	\$ 846,852	\$ 716,483	\$ 730,928	\$ 130,369	18.2%
D. HQ Library/ORS	\$ 608,966	\$ 585,417	\$ 593,223	\$ 23,549	4.0%
E. Reprographics (Net)	\$ (80,028)	\$ (18,505)	\$ (42,755)	\$ (61,523)	-332.5%
F. Membership Services	\$ 958,745	\$ 562,086	\$ 637,343	\$ 396,659	70.6%
G. Small Division Support*	\$ 69,577	\$ 83,577	\$ 98,160	\$ (14,000)	-16.8%
H. American Subscription Equivalents*	\$ 387,220	\$ 416,439	\$ 344,573	\$ (29,219)	-7.0%
I. Operating Supplies*	\$ 10,256	\$ 8,468	\$ 11,371	\$ 1,788	21.1%
J. Equipment and Maintenance/Lease*	\$ 1,529	\$ 1,806	\$ 2,945	\$ (277)	15.3%
K. Telephone (Net)*	\$ 42,969	\$ 33,924	\$ 37,061	\$ 9,045	26.7%
L. Public Awareness Office	\$ 461,691	\$ 482,495	\$ 434,817	\$ (20,804)	-4.3%
M. Information Technology & Telecommunication Services	\$ 2,895,515	\$ 2,582,281	\$ 2,183,708	\$ 313,234	12.1%
N. Fiscal Services	\$ 1,610,502	\$ 1,507,481	\$ 1,501,601	\$ 103,021	6.8%
O. Audit & Bank Fees*	\$ 428,887	\$ 425,002	\$ 437,533	\$ 3,885	0.9%
P. Advocacy Member Relations - AED	\$ 259,872	\$ 670,971	\$ 557,244	\$ (411,099)	-61.3%
Q. Public Programs	\$ 194,326	\$ 205,033	\$ 140,692	\$ (10,707)	-5.2%
R. Post Retirement Benefits (Operating)*	\$ 2,212,700	\$ 2,095,876	\$ 1,386,087	\$ 116,824	5.6%
S. General & Administration					
- Council/Administration/Committees	\$ 74,393	\$ 85,386	\$ 90,808	\$ (10,993)	-12.9%
- Executive Board	\$ 358,875	\$ 357,398	\$ 370,436	\$ 1,477	0.4%
- Executive Office	\$ 1,068,912	\$ 1,039,814	\$ 996,708	\$ 29,098	2.8%
- Member Programs & Services - AED	\$ 279,212	\$ 296,174	\$ 249,250	\$ (16,962)	-5.7%
- Staff Support/Office Services	\$ 178,710	\$ 169,829	\$ 163,769	\$ 8,881	5.2%
- Legal Fees	\$ 149,579	\$ 203,540	\$ 156,704	\$ (53,961)	-26.5%
- General Business Expense	\$ 729,400	\$ 1,007,904	\$ 4,037,634	\$ (278,504)	-27.6%
- Organizational Support*	\$-	\$ 20,703	\$ (2,265)	\$ (20,703)	100.0%
Total Direct Costs	\$ 15,218,758	\$ 15,115,016	\$ 16,698,210	\$ 103,742	0.7%
\$ Change (+/-)	\$ 103,742	\$ (1,583,194)	\$ 6,183,803		
% Change (+/-)	0.7%	-9.5%	56.8%		
% of Total ALA Expenses	28.3%	28.3%	29.6%		
Total ALA Expenses	\$53,834,977	\$53,888,783	\$57,745,677	(\$53,806)	-0.1%

*A component of General Business Expenses, but separated for illustration purposes.

DIRECT/INDIRECT COST CHANGES

Cost Type	<u>2017</u>	<u>% Total</u>	<u>2016</u>	<u>% Total</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Supplies	\$ 10,256	0.1%	\$ 8,468	0.0%	\$ 1,788	21.1%
Telephone	\$ 42,969	0.2%	\$ 33,924	0.2%	\$ 9,045	26.7%
Equip/Main	\$ 1,529	0.0%	\$ 1,806	0.0%	\$ (277)	-15.3%
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Reprographics	\$ (53,209)	-0.3%	\$ 9,429	0.0%	\$ (62,638)	-664.3%
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Support Units	\$ 3,525,790	17.9%	\$ 3,422,856	18.0%	\$102,935	3.0%
Offices & Committees	\$ 3,529,364	17.9%	\$ 3,099,032	16.3%	\$430,333	13.9%
Conferences	\$ 1,874,999	9.5%	\$ 1,914,120	10.1%	(\$39,120)	-2.0%
Products & Promotions	\$ 187,810	1.0%	\$ 209,108	1.1%	(\$21,298)	-10.2%
Publishing	\$ 3,378,366	17.1%	\$ 3,410,784	18.0%	(\$32,418)	-1.0%
Divisions	\$ 5,899,526	29.9%	\$ 5,618,822	29.6%	\$280,703	5.0%
Roundtables	\$ 193,435	1.0%	\$ 118,323	0.6%	\$75,112	63.5%
Restricted Funds	\$ 997,229	5.1%	\$ 1,076,088	5.7%	(\$78,859)	-7.3%
Related Interest Groups	\$ 124,360	0.6%	\$ 127,211	0.7%	(\$2,851)	-2.2%
Total	\$ 19,710,880	100.0%	\$ 18,996,343	100.0%	\$714,537	3.8%